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Summary of the economic and social survey of Asia and the Pacific, 2000

Summary

Recent developments in the economy of the ESCAP region show a resurgence of growth in an environment of substantially improved macroeconomic stability. The improved growth performance has been broad-based, cutting across all subregions with the exception of South and South-West Asia, and pulling up the average growth rate of the developing countries of the ESCAP region from nearly 0 in 1998 to 5.6 per cent in 1999. The major contribution to this dramatic upturn has come from the economies of East and South-East Asia that were hit by the crisis. Although downside risks exist, prospects for the further strengthening of regional growth in the immediate future are optimistic.

Issues of social security and safety nets in developing countries have become prominent of late, especially after the crisis. A number of formal social security and safety net arrangements are currently in operation or under consideration within the region to provide protection against involuntary unemployment or loss of income due to ill health and old age. However, the coverage remains highly limited. The suggestions for improvements in this regard include the establishment of new programmes, greater reliance on market-based or other non-governmental programmes, and reforms in existing programmes.

The recent economic and financial crisis in several Asian countries sparked worldwide interest in the reform of the international financial system. The call for improved surveillance and early warning systems is an integral part of the overall response. As requested in Commission resolution 55/2 of 28 April 1999 on economic and financial monitoring and surveillance in the ESCAP region, the ESCAP secretariat undertook research on the subject, including a review of the existing

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monitoring and early warning systems within different international bodies. The study reveals significant scope for regional cooperation in that area. Recommendations for future action range from informal exchanges of experience within the region to the establishment of formal surveillance systems at the subregional level. Areas in which the ESCAP secretariat can make a contribution, in conjunction with appropriate multilateral institutions, relate to more focused analysis, backstopping seminars aimed at the exchange of experience, the identification and interpretation of leading indicators and the provision of training or advisory services.

Contents

		Paragraphs	*Page*
I.	Recent economic performance, prospects and policy challenges	1–15	3
	A. Recent performance	1–2	3
	B. Towards an explanation	3–6	3
	C. Near-term prospects	7–9	4
	D. Downside risks and policy challenges	10–15	4
II.	Social security and safety nets	16–24	5
	A. An overview	16–19	5
	B. Policy issues	20–24	5
III.	Economic and financial monitoring and surveillance in the ESCAP region	25–40	8
	A. Monitoring and surveillance	28–29	8
	B. Review of mechanisms	30–36	9
	C. Improving and complementing existing surveillance mechanisms	37–40	10
Table.	Selected economies of the ESCAP region: rates of economic growth and inflation, 1998-2002		6

I. Recent economic performance, prospects and policy challenges

A. Recent performance*

1. The story of recent economic developments in the ESCAP region is one of resurgence of economic growth in an environment of substantially improved macroeconomic stability. Several factors have contributed to stable consumer prices. By the early part of 1999, the exchange rates had appreciated considerably in the countries affected by the crisis, and they then stabilized. Domestic supply conditions improved in consequence of falling interest rates, easing of the credit crunch and rising imports. In several countries, better weather conditions led to higher agricultural output. However, private consumption demand tended to remain muted, particularly in the countries that had fallen victim to the 1997 crisis. A noteworthy aspect was that the substantial reduction in inflation, averaging only 4 per cent for developing economies of the region in 1999, was shared by all subregions. Among the 25 developing economies of the region, as many as 19 recorded lower inflation rates.

2. The improved growth performance was also reasonably broad-based, cutting across all the subregions with the exception of South and South-West Asia. The broad-based nature of improved growth pulled up the average growth rate of developing economies of the ESCAP region to 5.6 per cent in 1999, in sharp contrast to the rate of close to 0 per cent in the preceding year. Fourteen out of 25 developing economies for which data are presented in the table achieved higher growth rates in 1999; only two registered negative growth, as against eight in 1998. The major contribution to the dramatic upturn in gross domestic product (GDP) growth for developing economies of the region as a group came from the economies of East and South-East Asia that had been hit by the crisis.

B. Towards an explanation

3. In the vast ESCAP region, the performance of individual countries is determined by the confluence of an array of country-specific as well as global forces. Nevertheless, it is possible to discern a number of common elements which contributed to the bright landscape depicted above. Some of them are analysed briefly in the paragraphs below.

4. Fiscal stimulus provided a significant boost to growth in many economies, especially in the economies of East and South-East Asia hit by the crisis. Several of the economies that were not directly affected by the crisis also resorted to increased public expenditure as a means to stimulate growth or to contain the damage inflicted by natural calamities. Export performance was another major source of the boost to economic growth for the majority of countries. Among the factors that caused improvement in export performance were increased global demand against the backdrop of strong economic performance in the United States of America and the recovery in Japan; better world prices for many of the primary commodity exports from the region; enhanced domestic supply capacity resulting from a relaxation of the liquidity crunch; and weather-induced improvements in agricultural production.

5. The combination of fiscal stimulus and better export performance created certain other conditions favourable for improved growth performance. These two elements together helped increase capacity utilization and contained a rise in unemployment. In consequence, greater optimism was generated, leading to some recovery in domestic private consumption. In part, domestic consumption was fostered by the wealth effect of rising stock market indices as well as the relatively greater stability in currency exchange rates.

6. Several economies in the region also benefited from external capital inflows. In addition to the official flows to which many of the economies in East and South-East Asia gained access in the aftermath of the crisis, there has been a return of some private flows. The volume of private financial flows to Asia in the first eight months of 1999 exceeded the amount channelled to the region during the whole of 1998.

* The present document is based on the *Economic and Social Survey of Asia and the Pacific 2000* (United Nations publication, to be issued).

C. Near-term prospects

7. The current indications suggest reasonably optimistic prospects for the further strengthening of regional growth in the immediate future. It is projected that developing economies of the region will reach an average growth rate of slightly over 6 per cent in 2000, about half of a percentage point above the rate achieved in 1999. There are a number of elements underlying this optimistic projection. They include the ongoing progress in financial restructuring; the potential for further easing of the monetary policy stance and falling interest rates; and the likelihood of maintaining strong export performance, facilitated by the prevailing excess capacity, easing of the credit crunch and higher global demand.

8. It is also anticipated that there will be further progress in corporate debt restructuring. Exchange-rate stability coupled with strong export performance would help ease the debt-servicing burden and should encourage domestic investors to undertake more investment activities. In addition, it may be easier for corporate entities to raise investment finance from domestic capital markets with continuing improvements in stock market indices.

9. As indicated above, there are signs of the return of private capital inflows into the region. The current recovery and the accompanying policy changes, many of which are even more favourable to foreign direct investment (FDI) than in the past, are likely to sustain this momentum.

D. Downside risks and policy challenges

10. Despite the optimistic scenario above, the region is not free from some downside risks which pose a number of policy challenges. One of the risk factors lies in the short-term negative effects of the structural reforms. Many of the countries in the region are taking initiatives to restructure their corporate entities. These measures may generate a sense of uncertainty with respect to employment prospects and thus dampen the pickup in domestic demand. The policy challenge is to ensure that the momentum of efficiency-enhancing restructuring measures is retained or even intensified, while avoiding loss of consumer confidence and its adverse ripple effects.

11. Financial sectors in many countries remain plagued with serious problems, such as still large volumes of non-performing loans, inadequate capital and insufficient loan loss provisions. Financial institutions may therefore continue to adopt cautious lending stances which may restrain growth. The countries are thus confronted with the dilemma between encouraging financial institutions to lend in order to meet the credit needs for sustained growth and minimizing the risks of further accumulation of bad debt.

12. As has been noted, a major source of recovery in the region has been the export momentum. It will be recalled that one of the crucial factors that caused the 1997 crisis was the dramatic deceleration in export growth suffered by the countries of East and South-East Asia in 1996. The reliance on external demand as a primary stimulus for growth is thus always fraught with some degree of risk. In that context, enhancing export competitiveness assumes critical significance. Enhancing such competitiveness will require the technological upgrading of existing lines of business as well as progressive diversification and shift into more knowledge- and technology-based activities. Typically, there is stiffer competition in these activities from both developed countries and advanced developing countries outside the region. It is also worth mentioning here that a number of low-income developing countries in the region have succeeded in diversifying into low-end, labour-intensive manufactured exports, particularly textiles. With the envisaged abolition of quotas under World Trade Organization agreements, those countries will face stronger competition from other developing countries within and outside the region.

13. The agricultural sector continues to be a significant source of value added, employment, raw materials and exports for many economies in the region, in which this sector is the major determinant of overall economic performance. The crisis in East and South-East Asia also brought to the fore the importance of this sector as a social safety net mechanism. Most countries of the region will therefore have to pay greater attention to improvements in agricultural productivity.

14. Fiscal stimulus played a significant role in improved economic performance in 1999. There are obvious limits to the degree of reliance that can be put on this source. It is therefore imperative that alternative

sources of stimulus drive the future growth process. A stronger recovery of private consumption, as well as investment, is thus crucial.

15. Finally, it should be noted that there are some downside risks in the external environment. One particular concern relates to the performance of the United States economy and the strength of recovery in Japan. Another external risk arises from the recent hike in oil prices.

II. Social security and safety nets

A. An overview

16. Social security and safety net programmes are crucial to ensure that various segments of the population have reasonable access to minimal income and basic social services in the event of diverse contingencies such as involuntary unemployment, old age or sudden economic crisis.

17. Expansion of the coverage and more effective implementation of social security and safety net programmes have been the focus of heightened attention in recent years. The importance of these measures was further highlighted by the Asian economic crisis, in the aftermath of which many Governments were caught unprepared to deal with the scale and intensity of social deprivation.

18. The formal social security and safety net arrangements that are now in operation in developing countries of the region embody one approach or a combination of four broad approaches: universal entitlement (such as free medical care in public hospitals); social insurance (such as contributory pension schemes); public assistance (such as a free health card for the poor); and market-based access through privately run schemes (for example, various group insurance schemes).

19. The *Economic and Social Survey of Asia and the Pacific 2000* contains a brief review of social security and safety net measures implemented in developing countries of the region. The review shows that large numbers of people, especially in the unorganized sector in both rural and urban areas, remain virtually excluded from social security coverage. They have to depend mostly on the redistributive and poverty-alleviation type of social safety nets for protection against income losses because of unemployment, old age or ill health. Indeed, the combined coverage under publicly mandated private-sector and government-employee schemes has been estimated at less than 30 per cent of the total labour force in several Asian countries, an understandably low ratio, given the continued importance of agriculture and of the informal sector as sources of employment.

B. Policy issues

20. The design and the operation of existing schemes need to be improved and strengthened, in such areas, among others, as the financing modalities, the levels of benefits provided, the standards and cost-effectiveness of delivered services, and transparency and accountability in supervision and control. Targeted safety nets for basic social protection (such as unemployment assistance, old-age benefits and health services) should also be introduced in favour of the social groups so far excluded.

21. Social insurance will continue to be the major modality for providing social security benefits. However, market-related mechanisms or collaborative arrangements with civil society can be a useful complement to programmes operated by the public sector to ensure higher levels of financial sustainability, coverage, benefits and services.

22. The introduction of appropriate schemes for unemployment benefits and involuntary dismissal deserves due consideration. In many developing countries, however, it is not possible at present to cover all workers and employees during prolonged or even transient periods of unemployment. Selective employment guarantee schemes, mediated through public works programmes for targeted segments of the unemployed, especially those in the rural areas, could be a viable option.

23. The provision of old-age and retirement benefits will become increasingly important in view of the upward trend in the proportions of the ageing population across the region. The introduction of a multipillar structure of old-age benefits is an option to minimize the risk of financial insolvency of benefit programmes and, at the same time, secure a reasonable level of welfare for the elderly. One pillar could be a benefit scheme mandated by legislation; the others

Table. **Selected economies of the ESCAP region: rates of economic growth and inflation, 1998-2002**
(Percentage)

	Real GDP					*Inflation*[a]				
	1998	*1999*[a]	*2000*[b]	*2001*[b]	*2002*[b]	*1998*	*1999*[a]	*2000*[b]	*2001*[b]	*2002*[b]
Developing economies of the ESCAP region[c]	0.1	5.6	6.2	6.4	6.5	11.3	4.0	3.7	4.2	3.8
South and South-West Asia[d]	5.8	4.9	6.3	6.7	6.6	14.8	10.2	8.6	7.8	6.0
Bangladesh	5.7	5.2	6.4	8.3	8.3	7.0	8.9	5.0	5.0	5.0
Bhutan	5.8	5.1	5.2	..	..	9.0	9.2	9.0	..	..
India	6.8	5.9	6.9	7.1	7.2	13.1	7.0	6.0	5.0	5.0
Iran (Islamic Republic of)	1.6	2.5	4.5	5.5	6.5	20.0	23.3	19.6	17.6	15.2
Nepal	2.6	3.4	4.0	6.0	6.0	10.2	9.6	7.0	6.5	6.5
Pakistan	4.3	3.1	5.0	5.0	5.0	7.8	5.7	6.0	6.0	6.0
Sri Lanka	4.7	4.0	4.4	5.4	..	9.4	6.0	7.5	6.8	..
Turkey	2.8	-2.3	4.6	3.9	..	84.6	66.0	52.8	54.9	..
South-East Asia	-6.9	3.4	4.5	5.7	6.0	27.6	9.3	5.4	6.0	4.8
Indonesia	-13.7	0.1	3.0	6.0	6.5	77.6	20.4	4.0	6.6	8.0
Malaysia	-7.5	5.4	5.8	6.5	6.6	5.3	3.0	3.0	4.0	4.0
Myanmar	5.0	4.6	5.0	5.2	..	51.5	38.0	32.0	26.0	..
Philippines	-0.5	3.2	4.5	4.6	5.4	9.0	7.0	7.0	6.5	5.5
Singapore	0.4	5.4	6.0	6.8	6.5	-0.3	0.4	1.0	1.3	1.4
Thailand	-10.4	4.1	4.4	5.0	5.2	8.1	0.3	2.5	3.5	3.5
Viet Nam	5.8	4.8	5.8	6.0	6.0	9.2	2.5	6.5	7.6	8.9
East and North-East Asia	1.6	6.7	6.9	6.7	6.7	2.7	-0.4	1.5	2.3	2.8
China	7.8	7.2	7.5	7.8	7.6	-0.8	-1.4	0.0	1.1	2.3
Hong Kong, China	-5.1	0.5	4.0	6.0	6.5	2.8	-3.0	0.0	2.0	3.0
Republic of Korea	-5.8	9.0	7.8	6.0	6.0	7.5	0.9	3.2	4.0	4.0
Taiwan Province of China	4.8	5.2	6.0	6.2	6.1	1.7	0.5	2.2	2.0	1.8
Pacific island economies	2.0	5.8	2.0	2.0	2.0	10.9	8.4	5.7	4.1	4.1
Fiji	0.5	7.8	3.0	3.4	2.6	8.1	1.0	6.0	3.0	3.0
Papua New Guinea	3.1	5.3	0.9	0.9	1.4	13.6	13.0	6.0	5.0	5.0
Samoa	1.1	6.1	4.9	4.5	4.5	2.2	4.0	3.0	3.0	3.0
Solomon Islands	-3.9	4.8	5.8	3.5	2.6	12.0	5.0	5.0	4.0	4.0
Tonga	-0.3	-1.1	3.6	2.5	2.2	3.4	6.0	4.0	2.0	2.0
Vanuatu	3.4	1.1	3.3	3.2	3.2	4.1	0.5	3.0	2.0	2.0
Developed economies of the ESCAP region	-2.3	1.1	1.1	1.4	1.6	0.7	-0.1	1.0	1.4	1.5
Australia	4.8	3.4	3.0	3.1	2.0	0.8	1.5	3.5	5.0	4.2
Japan	-2.8	0.9	1.0	1.3	1.6	0.7	-0.2	0.8	1.2	1.3
New Zealand	-0.8	2.2	3.5	3.3	4.0	1.3	2.0	1.4	1.4	1.4

Sources: ESCAP secretariat calculations, based on IMF, *International Financial Statistics* (Washington, D.C., February 2000); Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 1999* (New York Oxford University Press, 1991) and *Asian Development Outlook 1999* (New York Oxford University Press, 1999); United Nations Secretariat, Department of Economic and Social Affairs, "Report of the Meeting of the Expert Group on the World Economic Situation and Prospects (Project LINK), Athens, 1-5 November 1999" (New York, 2000); Economist Intelligence Unit, *Country Report: Myanmar (Burma)*, fourth quarter 1999; Organisation for Economic Cooperation and Development, *OECD Economic Outlook* (Brussels, December 1999); and national sources.

Note: Inflation refers to changes in the consumer price index.

[a] Estimate.

[b] Forecast/target.

[c] Based on data for 25 developing economies representing about 95 per cent of the population of the region (excluding the Central Asian republics); GDP at market prices in United States dollars in 1995 has been used as a weight to calculate regional and subregional growth rates.

[d] The estimates and forecasts for countries relate to fiscal years defined as follows: fiscal year 1999/00 = 1999 for Bhutan, India and the Islamic Republic of Iran; fiscal year 1998/99 = 1999 for Bangladesh, Nepal and Pakistan.

could be operated by privately managed schemes with voluntary contributions.

24. Formal social security and safety net programmes will assume increasing importance as a vehicle for social protection in industrializing and urbanizing economies. However, informal family transfers to meet various types of contingencies will remain important in many countries of the region for the foreseeable future. Governments could provide due encouragement to such complementary modes through, for example, the provision of tax incentives or appropriate legal and regulatory frameworks.

III. Economic and financial monitoring and surveillance in the ESCAP region

25. The recent crisis in several Asian and other countries sparked worldwide interest in reform of the international financial system. The ideas behind reforms are multifaceted. The call for improved surveillance (defined to include international cooperation in monitoring and exchange of information as well as the application of peer pressure on policy matters) is an integral part of the overall response. While one rationale for international cooperation on surveillance is to promote positive externalities, the avoidance of negative externalities arising from contagion effects provides the most compelling motivation. The prospect of further financial contagion argues for greater consultation and cooperation among countries.

26. At its fifty-fifth session, held in April 1999, in resolution 55/2 on economic and financial monitoring and surveillance in the ESCAP region, the Commission requested the ESCAP secretariat to undertake a study on possible regional mechanisms for the exchange of information and early warning systems in relation to the financial and economic situation in the countries of the region, with a focus on crisis prevention and reduction of the vulnerability of countries to economic and financial turmoil. The present report summarizes the research undertaken by the secretariat on this topic. The complete study appears in part two of the *Economic and Social Survey of Asia and the Pacific 2000*.

27. The objective of the study was to make recommendations for future activities, including ways and means of making regional contributions to the global monitoring and surveillance programmes of the International Monetary Fund (IMF) and other multilateral entities. Those recommendations have been placed before the Commission at its current session in the document entitled "Report on the implementation of Commission resolution 55/2 on economic and financial monitoring and surveillance in the ESCAP region" (E/ESCAP/1162) under agenda item 7 (a), for consideration and possible endorsement.

A. Monitoring and surveillance

28. Effective international cooperation on monitoring and surveillance involves several steps, including a common understanding of the objectives which are being pursued; an agreed analytical framework for assessing the international impact of economic policies and performance of economies; and a set of procedures for allowing international considerations to be examined in national policy-making. Monitoring is the process of comparing common selected indicators or targets against actual performance, whereas surveillance is not only the organized exchange of information but also the means of encouraging remedial policy action at the national level.

29. Early warning systems are models that attempt systematically to predict financial or economic crises. Models for predicting crises are usually classified into three types: a signals approach; a probit, or logit, model; and a regression approach, the first type being most often used at the national level and increasingly at the international level. When the indicator values cross some predetermined threshold level, a warning signal is emitted. Recent research has shown that a variety of economic, financial and institutional indicators are useful as signals for forecasting crises, but because crises and economies vary significantly, the set of indicators that perform well for one country might not necessarily be the same as the general set. Models of any sort are not entirely satisfactory; there are a very significant number of cases in which the models fail to predict a crisis which actually occurs. Therefore, it may be more realistic to engage in activities that monitor how robust or vulnerable a country or financial system is to any internal or external disturbance using a reasonable number of indicators, complementing this

with a reaction kit of policy response options to be activated whenever signals are flashing.

B. Review of mechanisms

30. There are two institutional approaches to monitoring and crisis prevention: one whereby certain bodies oversee the economic performance and policies of members to promote global well-being, and another involving the promotion of transparency and accountability and the development of internationally agreed standards for regulation, supervisory practices and policy formulation, which are then implemented at the national level. The review of existing global mechanisms for surveillance looks at these two angles and surveys recent initiatives to address the need for enhanced surveillance. It covers IMF and the Bank for International Settlements (BIS) as well as private sector bodies and rating agencies. It is noted that the Financial Stability Forum, set up by the G-7 members in 1999 to coordinate responsibilities for promoting international financial stability more effectively, includes representatives of the main standard and code-setting agencies such as IMF and BIS. The *Survey 2000* also contains a description of recent developments in codes and standards of various sorts affecting the financial sector.

1. International Monetary Fund

31. Under its Articles of Agreement, the principal function of IMF is to supervise the international monetary system through surveillance, financial support programmes and advisory services. IMF bilateral surveillance consists of regular consultations between itself and members (article IV consultations), including the provision of policy advice. The focus of multilateral surveillance is the impact of national policies on the global environment with an emphasis on exchange rates, trade and capital flows. IMF regularly releases several publications containing comprehensive financial statistics of various sorts. It is increasingly involved with regional organizations to conduct consultations and to provide inputs into regional surveillance mechanisms.

32. Recent initiatives in crisis prevention have focused on enhancing transparency by encouraging the release of IMF reports (public information notices, article IV staff reports, publication of the Fund's economic research activities etc.) to inform markets and policy makers about the economic situation of a country. It has also completed the development of some standards and codes (standards on data systems and data dissemination and codes of good practices on fiscal transparency and on transparency in monetary and financial policies) and is providing technical assistance to help countries implement the provision of these standards and codes. With other international organizations, IMF has been increasing its efforts to assess financial sector vulnerabilities and contagion effects. For example, it cooperates with BIS in encouraging implementation of the Core Principles for Effective Banking Supervision and established the Financial Sector Liaison Committee with the World Bank for effective collaboration on financial sector assessments and related technical assistance.

2. Bank for International Settlements

33. BIS functions as a forum among central banks and supervisory authorities for forging international cooperation in promoting sound banking supervision practices, developing standards relating to risk management, gathering and disseminating data and undertaking policy analysis. While mainly a G-10 organization, since 1996 the central banks of 13 systemically important developing countries, including seven in Asia, have become shareholders. BIS provides the secretariat for three standing committees corresponding to the pillars of the financial system: the Basle Committee on Banking Supervision (financial institutions); the Committee on the Global Financial System (financial markets); and the Committee on Payment and Settlement Systems (financial infrastructure). Regular and frequent meetings are organized under the aegis of the committees to undertake surveillance-type activities, discuss emerging issues and set up working groups to formulate codes. These codes are not legal instruments; rather, it is up to each national agency to decide when and how to implement them since international cooperation at BIS rests on the principle of national autonomy. Supervisory practices and technical aspects in BIS monitoring are detailed in the *Survey 2000*, using as a case study the Basle Committee on Banking Supervision, which is responsible for the Basle Capital Accord and the Core Principles for Effective Banking Supervision, two major instruments in the global banking system.

34. BIS is currently engaged in helping to improve the international financial architecture. It has taken steps to enhance the timeliness, quality and coverage of its international banking statistics, to include derivatives and to improve debt reporting. There is an ongoing review of the Capital Accord in order to address risks in the financial system more comprehensively, and renewed efforts to promote the full implementation of the Core Principles. Working groups were formed to draw lessons from the Asian crisis for supervisors of creditor banks and to provide inputs to reform efforts focusing on enhancing transparency and accountability, on policies to avoid international financial crises and to facilitate their resolution when they occur, and on strengthening financial systems to enhance financial stability. BIS set up a representative office in Hong Kong, China, in 1998 and the Financial Stability Institute in Basle in 1999 to organize seminars and training programmes.

3. Institute of International Finance

35. To respond to the international debt crisis of the early 1980s, major private financial institutions created the Institute of International Finance (IIF), with attention focused particularly on the assessment of investment risk in emerging markets. IIF now has more than 300 members worldwide. It has three goals which reflect its monitoring function: it seeks to support the activities of its members in emerging markets by publishing timely and accurate data on these markets; it serves as a forum for engaging the private financial community in discussion with international financial bodies; and it provides a vehicle for the exchange of information and views on global financial supervision through dissemination of its policy analysis.

4. Credit-rating agencies

36. Private credit-rating agencies provide assessments of both sovereign (governmental) and private-sector credit risks. Agencies regarded as independent (Moody's, Standard & Poor's and Fitch IBCA being the major ones) have some advantage over financial institutions since they can reflect market perceptions and the credibility of governmental policies to a greater extent. While there is some doubt about their utility as early warning signals, the ratings are considered to measure an economy's vulnerability. Further, although there is no exact formula for determining ratings, there is a high degree of correlation among the different ratings for the same country since the agencies look at very similar macroeconomic factors.

C. Improving and complementing existing surveillance mechanisms

37. As noted earlier, some progress has been made on at least two aspects of the new international financial architecture: enhancing transparency; and developing and implementing standards and codes for various supervisory functions. However, even in these seemingly agreed areas, effective implementation is in doubt. In part, this is because global bodies such as IMF or BIS do not always have adequate leverage on national policy-making processes. In addition, even if the standards and codes developed by these bodies are accepted by Governments, effective enforcement depends upon the existence of a proper national implementing mechanism and some independent monitoring modality. Hence, recent initiatives are marked by a will to meet these gaps through increased cooperation among surveillance mechanisms and among institutions, both bilaterally and in a coordinated manner, with the Financial Stability Forum being the most obvious example of a cooperative arrangement among major global surveillance bodies, national authorities and other regulatory agencies.

38. The Asian crisis provided several valuable lessons on why regional initiatives can increase the effectiveness of surveillance and monitoring to signal an impending crisis or to induce pre-emptive responses. The economies in the region have become more interdependent, and the stake of one country in the growth and orderly development of the others is growing. Insofar as an early warning may not function because of domestic political pressure, regional peer pressure can be an anchor in encouraging the adoption of appropriate policies. Another problem arises from differences in the interpretation of signals. For example, the rapidly rising level of short-term private debt in several Asian countries was not seen by Governments as a warning of an impending problem. Exchanges of information and discussions among officials in a region may help to alert them to such new and unfamiliar developments, to reinforce national capacity-building and to build confidence in policy options seen as applicable to the situation. It is possible that the indicators being monitored at the global level

do not give adequate warning of potential problems or of their severity, owing to inadequate focus on aspects of particular importance to a region. The scarcity of national capacity experienced in diagnosing emerging problems in the new, more complex, international financial system provides another rationale for mutual support among countries in the region, on top of the technical assistance being provided by multilateral financial institutions in this area.

39. The above considerations, as well as the depth of the recent regional crisis owing to the contagion phenomenon, have highlighted the need for a regional or subregional surveillance system of some sort as a complement to domestic and global ones. In part two of the *Survey 2000*, increasingly formal modalities for organizing subregional consultative approaches are outlined. These include informal exchanges of experience among interested countries on such topics as the selection and interpretation of leading indicators or financial liberalization or structured discussions organized in collaboration with multilateral and regional institutions on modalities and the conduct of monitoring and surveillance. They include seminars to draw lessons on policies and their spillover effects using public information notices and other assessment reports as background material. There could also be more formalized surveillance processes under subregional groupings, such as those being developed by the Association of South-east Asian Nations. Further, it is suggested that countries should strengthen the technical aspects of surveillance at the national level and become actively engaged in the ongoing process of developing the new financial architecture.

40. The role suggested for ESCAP in supporting national, subregional and regional initiatives and complementing the global one has three main features. First, ESCAP could convene and backstop exchanges of experience among groups of countries, when desired, in collaboration with other multilateral organizations, on various topics of interest to the group, as outlined above, or seminars on intersubregional experience in organizing more formal surveillance and use of peer pressure. These would help to build the national policy-making capacity for participating in the evolving international financial system. Secondly, ESCAP could organize training courses, when desired, in collaboration with multilateral institutions, at the national or subregional level and provide policy advice to Governments on different aspects of monitoring and surveillance, particularly for the economies that are not systemically important and the disadvantaged groups, such as the least developed countries, the economies in transition and the Pacific island countries. Thirdly, ESCAP could provide an independent regional perspective on Asia and the Pacific for use by countries or global bodies, and undertake analyses on emerging issues and problems of interest to members of the Commission, including, for example, preparing more systematic monitoring of selected indicators in the *Survey 2000*. The content of these recommendations may be found in more detail in the report on the implementation of Commission resolution 55/2 (E/ESCAP/1162).